Weekly Energy Status Report

1. Northwest Power Pool Status (WA, OR, ID, MT, WY, UT, No. NV, BC, AB)

- Power Pool peak load (Tuesday, 8/3): 45,547 MW
- Reserve margins were within comfortable ranges for Northwest Power Pool utilities.

2. Electricity, Petroleum and Natural Gas Prices

• Weekly Range at Mid-C:	$51.7 – 59.7 per MWh, Ave. = $55.3
• Approximate change from previous week	$+7.8 per MWh
• "Normal" price range, before 5/00	$20-$40 per MWh
• Petroleum, West Texas Intermediate:	$43.85 per barrel (year ago: $32.23)
• Seattle gasoline price (7/21)	$1.98 per gallon (year ago $1.64),
• Natural gas, Sumas Hub:	$5.36 per million British Thermal Units (year ago $4.02)
• Approximate change from last week.	Oil: 2.41 $ per barrel; Nat. gas: -.07 $ per MMBtu

3. California Electricity Situation

- <u>CA ISO Alert Status</u>
  - July 22, 2004: Third consecutive day of record electricity use.
  - A stage 1 alert, due to an unexpected heat wave, was declared on Mar. 31, 2004.
  - 20 minute outage in So. Cal. on March 8, 2004 due to operator error.
  - Most recent rotating blackouts: Tuesday, May 8, 2001

4. Energy News Headlines from around the Nation

- Device failure contributed to Hanford reactor shutdown (Seattle PI, Aug 3)
- Fewer oil firms, higher profits (Boston Globe, July 31)
- Companies avoid building refineries in US (Seattle PI, July 27)
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5. River and Snow Pack Information (Updated: July 14, 2004)

- Observed June stream flow at The Dalles: 70.5% of average,
- Observed June precipitation above The Dalles: 90% of average,
- Estimated Jan.-July runoff at The Dalles: 83.7 MAF, 78% of normal,
- Federal hydropower generation in June: 10,362 aMW, 1995-2002 average: 11,437 aMW.

6. Energy Conservation Achievement (Updated: Feb. 11, 2004)

- State Agencies: From Oct thru Dec 2003 electrical usage was 9% less and natural gas usage was 21.3% less compared to the same period in 2000.

7. Power Exchanged: (Updated: August 3, 2004)

- Average flow of power during the last 30 days

o California (exported to)	1,947 MW
o Canada (import from)	87 MW
o Net power export:	1,860 MW

Device failure contributed to Hanford reactor shutdown

Seattle PI, August 3, 2004

The state's only commercial nuclear reactor remained out of service yesterday after a glitch during an automatic shutdown last week.

The Columbia Generating Station began to shut itself down Friday after an electronic device failed and closed one of the reactor's four steam flow valves, said spokesman Brad Peck of Energy Northwest, which operates the reactor.

The valves channel nuclear-heated steam to the turbines driving the generator, Peck said. Normally, three valves are kept wide open and a fourth is restricted to regulate the steam and maintain constant pressure in the reactor, he said.

When the device running one of the valves failed, that valve closed completely, he said. That caused an increase in pressure in the reactor vessel, which triggered an automatic shutdown.

Then there was another problem.

During a shutdown, all 185 control rods are inserted into the reactor core to shut down the reactor, Peck said. Friday, either two of the rods did not fully insert or there was a false indication they had not, he said.

So the control-room crew executed a manual shutdown to ensure all rods were fully inserted.

"It's conceivable they were already in ... but whether they were in or not is something we may not be able to decipher," Peck said. "Obviously, we'll make sure everything is functioning 100 percent" before the reactor is started up again.

The problems triggered an alert in which state agencies prepared to respond if needed to help Benton and Franklin counties.

State emergency authorities said there was no release of radiation and no danger to the public.

Technicians yesterday performed maintenance work that can only be done when the reactor is not operating, said Gary Miller, another Energy Northwest spokesman.

The reactor could be running again in a day or two, Miller said.

Columbia Generating Station is a boiling-water reactor that produces 1,150 megawatts of electricity, which is sold to the Bonneville Power Administration for the Northwest electrical grid.

Ed Mosey, a spokesman for Bonneville Power, said Columbia Generating Station has had a good operating record.

The shutdown will not cause a shortage of power, he said, but means there will be less electricity to sell on the open market.

Formerly known as the Washington Public Power Supply System No. 2 reactor, Columbia Generating Station is the only one of five reactors begun in the late 1970s to be completed before construction was halted in 1982-83.

The reactor is located on land leased from the U.S. Department of Energy within the boundaries of the Hanford Nuclear Reservation, but is a separate entity.

Fewer oil firms, higher profits

One of the merger survivors, Exxon Mobil, reports record earnings for 2nd quarter of $5.8 billion

Seattle PI July 30 2004, By PETER J. HOWE, THE BOSTON GLOBE

The number of big U.S. oil companies has shrunk in the past five years. But for the survivors, life is terrific.

As crude oil traded at more than $42 a barrel yesterday, near a 21-year high, Exxon Mobil Corp., the world's biggest publicly traded company, reported record profits. Its second-quarter earnings of nearly $5.8 billion were up 39 percent from a year earlier.

Royal Dutch Shell Group, the world's No. 3 oil company, reported a 54 percent increase in second-quarter net income yesterday.

In a break with most historical precedents, Exxon also managed to not only reap booming profits from producing oil but also from refining and selling gasoline at service stations.

Despite pump prices above $1.90 a gallon in most of the United States, consumer demand for gasoline continues to rise, keeping industry profit margins high.

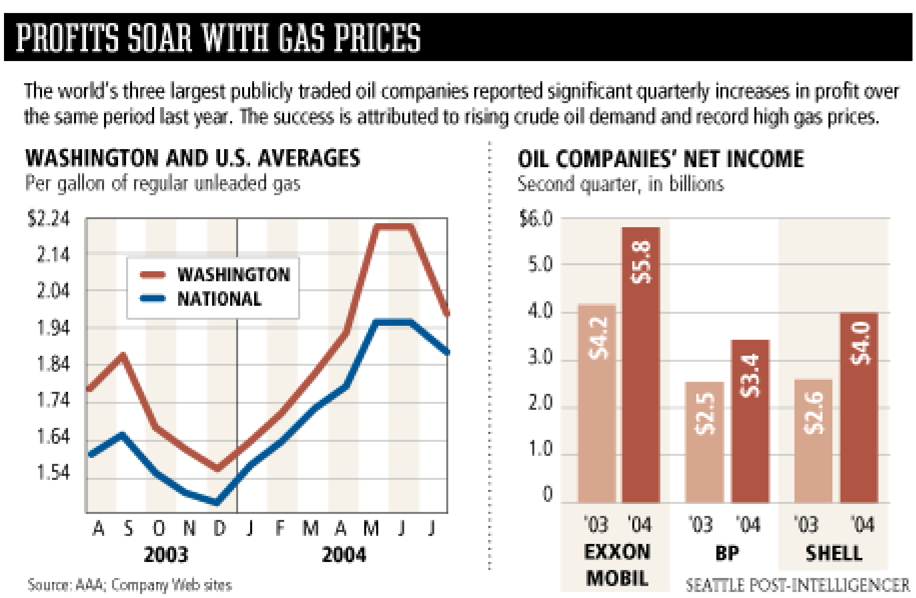
Another reason, critics say, is that industry consolidation over the past five years has enabled the now larger companies to exert more oligopoly like pricing control in the market.

"These guys are getting too big for their own good," said Tyson Slocum, research director for energy programs at Public Citizen in Washington, D.C., the Ralph Nader-founded consumer advocacy group.

"Energy prices are far higher than they would be if we had adequately regulated and adequately competitive energy markets."

For instance, Exxon Mobil was formed by the $87 billion merger of the country's No. 1 and No. 2 oil companies in 1999.

Likewise, the predecessors of ChevronTexaco Corp. joined in October 2001, 10 months before two other rivals merged as ConocoPhillips Inc.



The result is big players control far greater market share.

During the past 10 years, the percentage of U.S. gasoline refining capacity controlled by the top five companies has grown to 52.2 percent from 34.4 percent, helping refinery owners that hold back supply to crank up prices, Slocum said.

Last year, the five biggest U.S. oil companies controlled 63.4 percent of the country's retail gasoline market, up from 46.2 percent in 1997, according to an industry trade publication, National Petroleum News.

ConocoPhillips, which this week reported a 75 percent increase in second-quarter earnings, acknowledged that it could have made considerably higher profits had it avoided unplanned shutdowns of refineries in Louisiana and Pennsylvania.

"We did not realize the full potential of our assets in a high-price and high-margin environment," said James Mulva, president and chief executive.

Historically, high oil prices have often led to bigger profits for the part of companies that produce and sell oil.

But the refining and marketing parts of the business usually suffer, because refineries have to buy high-priced oil and can't always pass those added costs on to consumers.

It's unusual for companies to reap sharply higher profits for both parts at the same time.

Exxon Mobil spokeswoman Prem Nair declined to comment on whether the company has greater pricing power because of industry consolidation. But she noted that Exxon Mobil operates just seven refineries in the United States and 35 abroad.

She cited Capitol Hill testimony this month by Red Cavaney, president of the American Petroleum Institute, an industry trade group, who said "refiners have dramatically increased the efficiency and utilization of existing refineries" but have been hamstrung in expanding refineries or building new ones because of low returns on investment and "massive expenditures to comply with environmental requirements."

Edward Galante, senior vice president overseeing Exxon Mobil's refining and marketing business, said in a Bloomberg News interview that the company is not counting on refining margins remaining high. "Who knows what next quarter will bring?" Galante said.

But he said the company has been able to closely coordinate operations of former Exxon refineries in Louisiana and Texas with two former Mobil refineries nearby in both states, cutting overhead and improving efficiency. Exxon said it increased its refinery output in the first half of the year to 1.82 million barrels per day, up from 1.75 million in the 2003 first half.

Robert Goodof, a portfolio manager at Loomis Sayles & Co. in Boston who owns Exxon shares, said, "We may finally be in a cycle where refining can be a good business, and a lot of folks will think they earn excess profits, but they leave out a lot of years like 1999 when profits weren't so hot."

Jim Burkhard, director of oil market analysis with Cambridge Energy Research Associates, said, "When we see high gasoline prices, sometimes there are people who see conspiracy theories, but the most important reason why gas prices are high is demand.

"It's a very simple concept," Burkhard said. "There's no evidence that $2 gas or high gas prices have affected driving habits in the U.S."

Companies avoid building refineries in U.S.

Seattle PI By H. JOSEF HEBERT, ASSOCIATED PRESS WRITER

It's a good time to be in the oil refinery business. Demand for gasoline is high and profits are pouring in at a record clip. With that combination, you'd think oil companies would be falling over each other to build new refineries. Not so. There hasn't been a new refinery built in the United States in 28 years and more than 200 smaller facilities have closed.

Refining never has been viewed as a cash cow by the petroleum industry, which complains about meager profit margins, hefty environmental costs and too much government regulation.

But with gasoline prices hovering at $2 a gallon for much of this year, the country's largest oil companies and independent refiners are expected to report soaring profits from refinery operations in second quarter earnings this week.

An early hint of the industry's healthy bottom line came last week from Sunoco Inc., which reported a $217 million profit from refining related business, quadruple the total from a year ago. It produced a record 43 million barrels of gasoline during the quarter.

The refineries set production records during the first half of the year, including 8.6 million barrels of gasoline a day, but still couldn't keep up with demand, the American Petroleum Institute reported Tuesday.

Still, no major oil or refining company appears eager to add a new refinery. Instead, more could close. A refinery in California is expected to shut its gates this fall. Two Texas refineries have been on the market for three years with no takers. And an offer by Saudi Arabia to help build several U.S. refineries brought not even a hint of interest on Wall Street. A new refinery project in Arizona has yet to break ground after five years of trying.

"Today investors are in no mood for refinery building even if funding were available," Arjun Murti, managing director of Goldman, Sachs Co., told a recent congressional hearing on the dearth of U.S. refining capacity. Any executive who might pursue a new $3 billion refinery risks his company's stocks taking a hit, said Murti.

In 1981 the country had 324 operating refineries; today there are 149. They have been running at an average of 96 percent capacity but are unable to keep up with demand. Only gasoline imports have prevented shortages and gas lines.

But many of the closed refineries were, small, inefficient and "living on tax credits" when the country had too much refining capacity, says Guy Caruso, head of the Energy Information Administration.

In fact, the large, efficient refineries not only survived, but have become bigger. Over the last six years, refiners added 1.2 million barrels of production capacity, equivalent to building one additional medium-size refinery each year, according to the EIA, which keeps energy statistics for the government. At the same time, demand grew by 1.4 million barrels a day.

And efficiency improvements - called "de-bottlenecking" within the industry - can only go so far, industry experts said.

Demand for refined products, especially gasoline, is expected to grow at an annual rate of 1.6 percent for the rest of this decade, requiring an additional 260,000 barrels a day of gasoline and other fuels each year, according to Goldman Sachs.

With those kinds of demand forecasts, why is there no interest in building more U.S. refineries?

There is the cost that is estimated at $2 billion to $3 billion in capital investment with no certainty that today's glowing profits will stay around, say economists. And, despite billions spent on pollution controls, refineries do not make pleasant neighbors.

"Nobody seems to want to build a refinery in their back yard," David O'Reilly, chairman of ChevronTexaco, told a U.S. Chamber of Commerce luncheon the other day, deploring what he said was a regulatory and permitting morass and almost certain citizen opposition to any new refinery project.

Given likely community opposition, an anticipation of a lengthy permitting fight and uneven expectations on a future investor's rate of return, "most companies are unlikely to undertake the significant investment needed to even begin the process" says Red Cavaney, president of the American Petroleum Institute. The organization represents the large oil companies in Washington.

A new refinery can't be sold to Wall Street as a very profitable investment, industry executives maintain.

"The 10-year average return on investment in the (refining) industry is about 5.5 percent, about what investors could receive by investing in government bonds with little or no risk," says Bob Slaughter president of the National Petrochemical and Refiners Association.

But some independent refiners, such as Valero Energy Corp., have been able to reap considerably higher rates of return - buying old refineries at bargain prices, as little as 20 cents on the dollar.

Valero, the country's largest independent refiner based in San Antonio, Texas, has grown rapidly since 1997 by acquiring undervalued refineries, making environmental improvements and expanding capacity.

Such was the case with its purchase of the Orion refinery in Louisiana. "We paid far less (for it) than the replacement cost. If we had paid full replacement cost for it, it would not be doing well at all," said Gene Edwards, a Valero senior vice president.

Would Valero ever build a new refinery?

"I don't see anyone building a refinery in the U.S. - maybe overseas," said Edwards in an interview.

Petroleum prices reached the $44/barrel level this week as supply concerns continue to add a significant price premium. While the current price represents a record in nominal dollars, it is less than the inflation-adjusted price of $57/barrel reached briefly in 1991 and the sustained $80/barrel price in 1981 (expressed in 2004 dollars). Retail gasoline and diesel prices remain high, but continue to inch downward as regional fuel inventories remain sufficient and stable. The price differential between WA state (average) and national (average) gasoline and diesel prices continue to decline from the highs registered earlier this summer of 25 cents/gallon for gasoline and 52 cents/gallon for diesel.